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SUBJECT: POSSIBLE SENEGAL-INDIA AGREEMENT TO REVIVE PHOSPHATE PRODUCTION

SUMMARY

¶1. (SBU) Two days before the reelection of President Wade, the Government of Senegal (GOS) and the India Farmers Fertilizer Cooperative Limited Group (IFFCO) signed what is described as an interim agreement on February 23, to revive production at Senegal's national phosphates company, Industries Chimiques du Senegal (ICS) after several months of difficult and uncertain negotiations. The agreement, also referenced as "the last rescue plan" calls for IFFCO to invest USD 160 million in ICS' "recapitalization" to pay off and reorganize the company's debt to a sustainable level, boost its export activities, and to renew shareholders and partners' confidence. However, some critics remain skeptical and noted that IFFCO continues to demand concession rights to the actual phosphates deposits, not just priority for purchasing ICS' products. Since the Governments of India, Cameroon, Cote d'Ivoire and Nigeria are ICS shareholders, the company's success or failure affects their budgets as well as the 13,500 workers' livelihoods. END SUMMARY.

GOS/IFFCO: SOME ALLIANCE OF HOPE

¶2. (U) Junior Minister of Budget Cheikh Adjibou Soumare, Senegalese Ambassador to India Amadou Boucoum, ICS Managing Director Alassane Diallo, Indian Ambassador to Senegal Prabati Vyas, and IFFCO Managing Director Dr. Usta Awashani, attended the February 23 agreement signing ceremony between the GOS and IFFCO, ICS' largest client, to revive ICS, Senegal's national phosphates company. ICS has been operating at ten percent or less of its historic capacity since IFFCO's previous contract with the GOS expired in April 2006. Previous negotiations, in April and November 2006 were unsuccessful as the Government of Senegal refused to include control of the important Matam phosphate mining reserve in the recapitalization agreement. Observers familiar with the negotiations characterize the deal as an "interim" agreement since IFFCO continues to press for concessions on the phosphates reserves. However, under the agreement, IFFCO would stabilize ICS' debt, including its extensive arrears to shipping companies. IFFCO and other shareholders (including the GOS) are required to invest at least CFA 40 billion (USD 80 million) in cash by June 30, 2007. This will allow ICS to increase its production to a target of at least two shiploads of phosphoric acid per month for export to India, which remains below the company's historic levels of four shiploads per month.

¶3. (SBU) Outside agreement is needed for the deal to be finalized, especially for the restructuring of the ICS debt. The "interim" agreement has been presented to the President of the Special Court of Dakar, which maintains a current dossier based on GOS actions to place ICS under bankruptcy protection pending reorganization in 2006, the shareholders, and to ICS' creditors. The communique notes

the two parties' willingness to pursue their relationship within the framework of the Organization for the Harmonization of Business Law in Africa" (OHADA) uniform law.

¶4. (SBU) Some critics remain skeptical and stated that the so-called agreement was signed just to give a "breath of fresh air" to ICS. They claimed that the agreement remains silent on IFFCO's long standing requirements that call for the lay-off of at least 30 percent of ICS's workforce, full control of the Matam phosphate deposits, and complete control of ICS's finance and management. (NOTE: The GOS has previously rejected these requirements. However, according to sources from the Prime Minister Office, a senior GOS delegation will meet with IFFCO by the end of March in Paris to discuss these pending sensitive issues. END NOTE.)

RESOLVING ICS' DEBT WILL NOT BE EASY

¶5. (U) ICS, which in previous years has accounted for up to ten percent of Senegal's exports and two percent of GDP, has arrears of over CFA 90 billion (USD 180 million) in both short and long term debt. Approximately CFA 70 billion (USD 140 million) is owed to local banks. Its commercial losses reached CFA 160 billion between 2003 and 2005, and loses are expected to be at least at CFA 20 billion in 2006. ICS has a workforce of 2,500 permanent and 11,000 temporary employees. Its main shareholders include the GOS (46.38 percent), IFFCO (19.09 percent), the Government of India (6.97 percent), Societe Commerciale de Potasses et de l'Azote (SCPA) (4.76 percent), the Government of Cote d'Ivoire (4.27 percent), the Government of Nigeria (3.95 percent), the Government of Cameroon (3.35 percent), the Islamic Development Bank (IDB) (3.34 percent), and others (the remaining 7.92 percent).

COMMENT

¶6. (SBU) The drain on Senegal's already under-performing economy

caused by ICS's lack of production has been a widely discussed topic throughout Senegal. The government's announcement of this deal only two days before Senegal's presidential elections is not coincidental, since during the campaign President Wade promised, "We know that rescuing ICS will require a great deal of money and initiatives, but we are ready and committed to keep the factory alive no matter the cost." The truth is, the GOS cannot afford to invest much in ICS and needs IFFCO, or some other investor, to resuscitate the company. Senegal's budget situation is dire, and the country needs ICS' production, employment, and sales and tax revenues. We are hopeful that this agreement is the first step in getting ICS back to full production - but it's not there yet. END COMMENT.

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